

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 COME-00 TRSE-00 OMB-01 AID-05 IO-10

AGR-05 EURE-00 XMB-02 CIEP-01 STR-01 /089 W

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P 201718Z JAN 75

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 7046

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E.O. 11652: N/A

TAGS: EFIN, GR

SUBJECT: AMBASSADOR'S CALL ON MINISTER OF FINANCE

REF: ATHENS 279

1. ON JANUARY 20 AMBASSADOR KUBISCH CALLED ON FINANCE MINISTER EVANGHELOS DEVLETOGLOU (WAS UNDERSECRETARY OF COORDINATION MINISTRY DURING CARAMANLIS' INTERIM AND CARE-TAKER GOVERNMENTS). AFTER OPENING EXCHANGE OF COURTESIES, FINANCE MINISTER REPLIED TO AMBASSADOR'S QUERIES AS FOLLOWS:

2. 1975 GOVERNMENT BUDGET - FINANCE MINISTER CONFIRMED 1975 ORDINARY BUDGET WILL BE BALANCED AT 140 BILLION DRACHMAS, UP ABOUT 33 PERCENT FROM 1974'S BUDGET. MOST OF ADDITIONAL INCREMENT ACCOUNTED FOR BY INCREASED DEFENSE EXPENDITURES AND PUBLIC DEBT. APPROXIMATELY 25 BILLION DRACHMAS OF INCREASE WILL BE FINANCED BY NATURAL GROWTH IN GOG TAX REVENUES. REMAINING 15 BILLION DRACHMAS TO BE GENERATED FROM NEWLY ANNOUNCED INDIRECT TAX INCREASE (EMBASSY WILL REPORT DETAILS WHEN AVAILABLE). GOG ALSO INTENDS LEVY A WEALTH TAX SIMILAR TO THAT IN SWEDEN AND U.K., BUT RECOGNIZES NECESSITY TO PROCEED SLOWLY SO AS NOT TO

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DISTURB PATTERN OF SAVINGS, ESPECIALLY BANK TIME DEPOSITS.

GOG WILL THEREFORE START WITH LIGHT REAL ESTATE TAX, PROCEEDING TO NET REAL PROPERTY TAX AT LATER DATE. STIMULUS FOR PROPERTY TAX DERIVES FROM DOUBLING AND TREBLING OF PROPERTY VALUES OVER RECENT YEARS WHILE GOVERNMENT REVENUES HAVE BENEFITED LITTLE FROM DEVELOPMENT.

3. TAX REFORM - A MAJOR CONSIDERATION OF GOG IN NEW TAX LEGISLATION IS SOCIAL JUSTICE. GOG HAS THEREFORE RAISED INITIAL TAX EXEMPTION AND REDUCED TAX RATES ON LOWER AND MIDDLE INCOME GROUPS, WHILE AT SAME TIME TAX RATES ON HIGHER INCOMES HAVE BEEN INCREASED. THESE MEASURES ARE ALSO INTENDED TO HELP OVERCOME EFFECT OF FISCAL DRAG ON LOWER INCOMES BY WHICH INFLATION HAS PUSHED MANY INCOMES INTO HIGHER TAX BRACKETS, WHILE AT SAME TIME CUTTING REALY INCOME. UNFORTUNATELY, RETROGRESSIVE NATURE OF INCREASED INDIRECT TAXES WILL PARTIALLY COUNTERACT BENEFITS OF INCOME TAX REFORM FOR LOWER INCOME GROUPS, BUT FINANCE MINISTER IS HOPEFUL THIS INEQUITY WILL BE ONLY OF SHORT DURATION.

4. IMF/IBRD FINANCING - ALTHOUGH THEN-COORDINATION MINISTER ZOLOTAS AND BANK OF GREECE GOVERNOR PAPALIGOURAS MADE APPROACH TO IBRD FOR BOTH PROJECT AND PROGRAM FINANCING WHEN IN WASHINGTON LAST SEPTEMBER FOR IMF-IBRD MEETINGS, FINANCE MINISTER WELL AWARE THAT PROGRAM FINANCING HAS BEEN GENERALLY LIMITED TO COUNTRIES WITH VERY LOW PER CAPITA GNP. GREECE, WITH ABOUT \$2000 PER CAPITA GNP DOES NOT QUALIFY UNDER THIS CRITERION. WHILE IBRD PROGRAM FINANCING PROBABLY WILL NOT BE FORTHCOMING, GOG HAS SOME CONFIDENCE THAT PROJECT SUPPORT WILL BE MADE AVAILABLE. (COMMENT: GOG/IBRD ALREADY DISCUSSING MOST LIKELY CANDIDATE FOR FIRST NEW PROJECT, A ROAD IN EAST CENTRAL GREECE.) FOR BALANCE OF PAYMENTS SUPPORT, GREECE WILL LOOK TO OTHER MULTINATIONAL AND BILATERAL SOURCES.

5. COMMENT: THOUGH SOME OF THE GOG'S NEW ECONOMIS MEASURES ARE BEGINNING TO EMERGE IN AN INDICATIVE FORM, WE WILL PROBABLY HAVE TO WAIT UNTIL THEY ARE SUBMITTED TO PARLIAMENT IN THE NEXT FEW WEEKS TO LEARN THE DETAILS. THE THEME OF SOCIAL JUSTICE AND REDISTRIBUTION OF WEALTH THROUGH TAX REFORM, HOWEVER, SEEMS TO BE GAINING SOME LIMITED OFFICIAL USE

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PROMINENCE AMONG THE GOG'S ANNOUNCED GOALS, ALONG WITH STIMULATING THE ECONOMY, DEFENDING AGAINST A RESURGENCE OF INFLATION, AND COVERING A PROSPECTIVE CURRENT ACCOUNT DEFICIT OF ONE BILLION DOLLARS OR MORE. KUBHSCI

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## Message Attributes

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